IFRS® Accounting Standards Discussion Group Meeting Report – May 14, 2025

Extract, IFRS 18: Disclosures about Management-defined Performance Measures (MPMs)

Background

IFRS 18 *Presentation and Disclosure in Financial Statements* will replace existing IAS 1 *Presentation of Financial Statements*. While IFRS 18 will not change how entities recognize and measure items in the financial statements, it will affect how they present and disclose those items, especially in the income statement.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with early application permitted, and is applicable retrospectively. Entities with December 31 year-ends will be required to present any new income statement categories and subtotals arising from the application of IFRS 18 in the interim financial statements in the first year of adoption (i.e., Q1 of 2027). These entities will need to have any changes to systems, processes and controls in place from January 1, 2026, to produce the required comparative information. The Group discussed IFRS 18 implementation issues at its September 2024 meeting.

IFRS 18 introduces the concept of MPMs and requires their disclosure in the financial statements, making them part of the audited financial statements for the first time. MPMs are subtotals of income and expenses used in public communications outside of the financial statements to communicate management's view of an aspect of the entity's financial performance. This concept captures some, but not all, non-GAAP measures that are commonly used by companies today.

For the purposes of applying IFRS 18, public communications include management commentary (e.g., MD&A), press releases, and investor presentations. However, they do not include oral communications (and their transcripts) and social media posts. Companies may need to adjust the systems and processes that govern their public communications to identify, capture, and analyze those currently used performance metrics that will qualify as MPMs under IFRS 18. This is not a one-off exercise. Entities will need to perform this exercise each reporting period, including interim periods, to facilitate disclosure of reconciliations of MPMs to the most directly comparable IFRS Accounting Standards subtotals, including tax effects and effects on non-controlling interests. The explicit requirement for MPM disclosures in the condensed interim financial statements will involve additional effort as there is no relief from the reconciliation requirement.[4]

[4] IFRS 18 introduces consequential amendments to IAS 34 *Interim Financial Reporting* that require entities to provide the additional disclosures for MPMs in their interim financial statements. However, only MPMs that relate to the entity's performance in the interim reporting period need to be included in the interim financial statements.

While IFRS 18's disclosure requirements for MPMs apply to the financial statements, Canadian Securities Administrators' National Instrument (NI) 52-112 *Non-GAAP and Other Financial Measures Disclosure* sets out disclosure requirements for non-GAAP financial measures, non-GAAP ratios, and other financial measures outside the financial statements. NI 52-112 is effective as of August 25, 2021. Canadian securities regulators expect to update NI 52-112 to ensure that all financial measures traditionally considered non-GAAP continue to be regulated under the instrument when disclosed outside the financial statements.

The MPM requirements apply to all entities applying IFRS Accounting Standards, publicly listed or private. If a private entity communicates subtotals that meet the definition of MPMs, that entity would be required to apply the related MPM disclosure requirements in IFRS 18. However, if an entity does not communicate such subtotals outside its financial statements, the MPM disclosure requirements would not apply.

Issue 1: What types of measures meet the definition of MPMs?

Analysis

Paragraph 117 of IFRS 18 defines an MPM as a subtotal of income and expenses that (see paragraphs B113-B122 of IFRS 18):

a. an entity uses in public communications outside financial statements;

b. an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and

c. is not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards.

Paragraph 118 of IFRS 18 lists the following subtotals of income and expenses that are not MPMs:

a. gross profit or loss (revenue minus cost of sales) and similar subtotals (see paragraph B123);

b. operating profit or loss before depreciation, amortization and impairments within the scope of IAS 36;

c. operating profit or loss and income and expenses from all investments accounted for using the equity method;

d. for an entity that applies paragraph 73, a subtotal comprising operating profit or loss and all income and expenses classified in the investing category;

e. profit or loss before income taxes; and

f. profit or loss from continuing operations.

Even though the subtotals listed in paragraph 118 of IFRS 18 are not defined in IFRS Accounting Standards, they are commonly understood and the reconciliation to totals or subtotals required by IFRS Accounting

Standards is apparent from the face of the income statement. Therefore, they are not subject to the disclosure requirements for MPMs.

Paragraph B116 of IFRS 18 lists the following as not being MPMs because they are not subtotals of income and expenses:

a. subtotals of only income or only expenses (e.g., adjusted revenue, cash-paid salary costs);

b. assets, liabilities, equity or combinations of these elements (e.g., net debt);

c. financial ratios (e.g., return on assets);

d. measures of liquidity or cash flows (e.g., free cash flows); or

e. non-financial performance measures (e.g., number of subscribers, store floor space, product volumes).

The term “subtotal” is not defined and IFRS 18 does not restrict the composition of the subtotal to amounts only measured and recognized in accordance with IFRS Accounting Standards, nor does it prescribe how an IFRS Accounting Standards subtotal might be “adjusted” by management. This appears intentional as paragraph BC331 in the Basis for Conclusions notes (italics added for emphasis):

> The IASB decided to limit the definition of ‘management-defined performance measures’ to subtotals of income and expenses. For example, *measures that adjust a total or subtotal specified in IFRS Accounting Standards, such as adjusted profit or loss*, are management-defined performance measures. Other measures (such as free cash flow or customer retention rate) are not MPMs.

One can also infer this from the requirement in paragraph 123 of IFRS 18 to disclose how the MPM is calculated, including how the measure differs from accounting policies in IFRS Accounting Standards and a reconciliation between the MPM and the most directly comparable IFRS Accounting Standard subtotal.

The Group discussed a series of examples and compared them to the definition of MPMs and related guidance in IFRS 18. The Group assumed that the subtotals are publicly communicated and comply with the disclosure requirements in NI 52-112.

<u>Example 1: Subtotal of income and expenses that adjusts for IFRS Accounting Standards–compliant amounts</u>

Some subtotals add or subtract a non-cash item from an IFRS Accounting Standards–compliant profit-or-loss measure. For example, share-based compensation recognized under IFRS 2 *Share-based Payment*, goodwill impairment losses or reversals recognized under IAS 36 *Impairment of Assets*, or fair value gains and losses recognized under IFRS 13 *Fair Value Measurement* might be added to or subtracted from profit or loss.

Other subtotals adjust for unusual or non-recurring items of income or expenses recognized during the period. For example, legal costs incurred or gains from legal settlements, transaction costs incurred in relation to business acquisitions, insurance losses or recoveries from claims, or restructuring costs incurred might be added to or subtracted from profit or loss. Entities typically label these subtotals as, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA); adjusted net earnings; or variations thereof.

Example 2: Subtotal of income and expenses that adjusts for non–IFRS Accounting Standards–compliant accounting policies

Some subtotals adjust an IFRS Accounting Standards–compliant profit-or-loss measure for amounts that do not comply with IFRS Accounting Standards recognition and measurement requirements. For example, some subtotals might:

- adjust net profit to recognize revenue over time when IFRS 15 *Revenue from Contracts with Customers* requires it to be recognized at a point in time;
- adjust net profit to include the entity's proportionate share of income from its joint venture, instead of applying the equity method; or
- adjust operating income to reverse the impact of applying IFRS 16 *Leases* and, instead, record all rent expense on a straight-line basis evenly over the reporting period.

Another example might include adjusting an IFRS Accounting Standards subtotal to communicate a performance measure on a constant-currency basis (this is not compliant with IAS 21 *The Effects of Changes in Foreign Exchange Rates*). Companies with global operations might disclose this type of subtotal. Under this approach, the entity applies the same fixed exchange rate when translating foreign currency items into the functional currency in both the current and comparative periods. For example, the entity might apply the prior year's exchange rates to the current-year subtotal (a multiplication exercise).

Group members were asked whether they agree that the subtotals discussed in Example 1 and Example 2 represent potential MPMs and whether there are other factors that should be considered.

The Group's Discussion

The Group agreed with the analyses of Example 1 and Example 2 and thought the subtotals discussed in these examples might meet the definition of an MPM. However, the Group noted that entities would need to consider specific facts and circumstances to determine whether a particular reported metric meets the definition of an MPM. One Group member thought that paragraph B134(b) of IFRS 18 in the application guidance also supports the view that the metrics highlighted in Example 2 can be MPMs. This paragraph notes that additional disclosure is required when the calculation of an MPM differs from accounting policies required or permitted by IFRS Accounting Standards. Therefore, it indirectly affirms that subtotals of income and expenses that adjust for non–IFRS Accounting Standards–compliant accounting policies are MPMs.

One Group member questioned whether EBITDA or adjusted EBITDA or both meet the definition of an MPM if an entity also discloses this amount in their financial statements to comply with capital management disclosure requirements in accordance with paragraphs 126-127 of IFRS 18. For example, an entity might disclose adjusted EBITDA in their financial statements because it uses adjusted EBITDA to monitor capital or has a loan covenant based on this metric. They thought this metric might not meet the definition of an MPM because, in this case, the entity would be required to disclose it to comply with paragraphs 126-127 of IFRS 18. Therefore, it would be exempt from the MPM disclosure because the definition of an MPM excludes items specifically required to be disclosed by IFRS Accounting Standards (paragraph 117(c) of IFRS 18). Furthermore, management might not use this metric to assess the entity's financial performance. Another Group member noted that there is a rebuttable presumption in paragraph 119 of IFRS 18 that a subtotal of income and expenses that an entity uses in public communications outside its financial statements meets the definition of an MPM. Entities are permitted to rebut this presumption if they have reasonable and supportable information available to demonstrate the basis for this assertion. Therefore, the Group member thought that, depending on the facts and circumstances, by applying this rebuttable presumption, an entity could conclude that its adjusted EBITDA does not meet the definition of an MPM.

Another Group member thought it is unclear whether the reporting of a subtotal on a constant-currency basis meets the definition of an MPM. They thought this might be considered the reporting of a hypothetical scenario, which, in their view, does not qualify as an MPM. However, other Group members agreed that this *could* be considered an MPM, depending on the facts and circumstances. They thought this metric depicts an entity's actual performance for the period, adjusted to exclude the impact of foreign currency fluctuations.

One Group member highlighted that, in discussing these examples, the Group assumed that the reported metrics comply with NI 52-112. They noted that this assumption ensured the discussion focused on the accounting definition of an MPM rather than including a discussion on whether the metrics comply with NI 52-112. They also noted that a private entity applying IFRS Accounting Standards is not bound by the same regulations regarding its disclosures of non-GAAP metrics outside the financial statements. Therefore, a private entity might face additional challenges in identifying its public disclosures and determining whether any of them include metrics that meet the definition of an MPM.

Example 3: Subtotal of income and expenses most directly comparable to an IFRS Accounting Standards expense item

Gold-mining companies often refer to recommendations of the Gold Institute Production Cost Standard and the definitions set out by the World Gold Council when describing their non-GAAP measures. A subtotal commonly used by gold-mining companies is "cash operating costs." Gold-mining companies use this subtotal to disclose the net cost to produce and sell gold. When calculating this subtotal, entities start with an IFRS Accounting Standards–compliant cost measure, such as cost of sales or production costs. They then adjust it to include by-product sales (which is revenue under IFRS 15) and exclude items such as royalty expense, selling, and refining expenses. "Total cash costs" is another measure commonly reported by gold-mining companies and is typically calculated by adding royalty expense back to cash operating costs.

Some entities adjust "total cash costs" further to arrive at "all-in sustaining costs" (AISC) or "all-in costs". These metrics typically include adjustments for items such as corporate general and administrative expenses, reclamation accretion, exploration costs, and capital expenditures. The most directly comparable

IFRS Accounting Standards measure for “cash operating costs” and “AISC” provided in the MD&A is “production cost”.

Group members were asked whether they think any of the subtotals discussed in Example 3 represent potential MPMs and whether there are any other factors that should be considered.

The Group’s Discussion

The Group agreed that, depending on the specific facts and circumstances, the metrics in Example 3 might meet the definition of an MPM. However, several Group members thought entities will often need to apply significant judgment to determine if a metric meets the definition of an MPM. They also noted that the definition of an MPM is quite broad and that entities might interpret it in different ways. They thought this might lead to diversity in the application of the requirements.

Some Group members noted that in some cases it might be unclear whether a metric represents management's view of an aspect of the entity’s financial performance as a whole. For example, if the measure only pertains to operations in a particular region or a particular subset of the entity’s operations (e.g., one mine), they thought that the standard is unclear on whether this would represent “an aspect of the entity’s financial performance as a whole.” Some members also noted that some of the metrics highlighted in this example include by-product sales that may be insignificant or immaterial to the entity. They questioned whether the standard intends that cost metrics with minimal by-product sale adjustments would qualify as a “subtotal of income and expenses,” and, therefore, an MPM to be scoped into the IFRS 18 MPM disclosure requirements. Finally, one Group member questioned whether some of the metrics highlighted in this example represent a measure of the entity’s performance or a cash flow measure. If a metric is a cash flow measure, they noted it would not meet the definition of an MPM.

Since the Group thought entities might reach diverse conclusions on the application of certain of the requirements in IFRS 18 for identifying an MPM (e.g., what is “an aspect of the financial performance of the entity as a whole”), it recommended that the AcSB monitor the evolution of the application of the MPM requirements and consider discussing this issue with IASB staff and potentially raising it with the IFRS Interpretations Committee.

Example 4: Subtotal of income and expenses based on hypothetical events or transactions

Some entities disclose subtotals that include the results of hypothetical events or transactions. For example, some subtotals might include the following:

- Adjusting IFRS Accounting Standards profit or loss to include revenue that is not yet earned under IFRS 15, but is based on the company’s confirmed sales contracts (i.e., “revenue in the pipeline”); and
- Adjusting IFRS Accounting Standards profit or loss for the impact of a unique event to portray a financial result as if the event did not occur. For example, profit or loss might be adjusted to include revenue lost during a power outage, hurricane, or pandemic lockdown. Alternatively, profit, or loss

might be adjusted to exclude incremental losses arising from one of these events. For example, extra credit losses, or other impairments might be removed to arrive at a normalized financial result.

View 1.4A – Hypothetical adjusted subtotals can meet the definition of an MPM

Proponents of this view note that the definition of "MPMs" is broad with little restriction, and that there is no requirement for an MPM to be recognized and measured in accordance with IFRS Accounting Standards. They think one can infer this from the requirement in paragraph B134(b)(ii) of IFRS 18, which requires an entity to provide specific information where "the calculation of the measure differs from accounting policies required or permitted by IFRS Accounting Standards." Additionally, they note that paragraph BC357 in the Basis for Conclusions for IFRS 18 says, "The IASB decided it would place no specific restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure. The IASB concluded such restrictions might prevent an entity from disclosing measures that users of financial statements find useful."

The challenging aspect of the financial reporting requirements for MPMs is complying with the disclosure requirements in paragraph 123 of IFRS 18. That is, labelling and describing the measure in a way that faithfully represents its characteristics, providing a reconciliation, and disclosing how the measure is calculated can be challenging. The discussion in IFRS 18 of a faithful depiction is only in the context of labelling and describing the MPM, rather than whether the MPM is a faithful depiction of performance (paragraphs B134-B135 of IFRS 18). As noted in paragraph BC360 of the Basis for Conclusions, "Faithful representation does not in itself convey other information about the measure. For example, it does not provide information about whether a measure is a 'good' or 'bad' measure. A management-defined performance measure is only required to faithfully represent the aspect of performance being communicated."

View 1.4B – Hypothetical adjusted subtotals cannot meet the definition of an MPM

Proponents of this view think that the definition of MPMs is narrower, and that they should include only actual income and expenses for the period (even if not measured in accordance with IFRS Accounting Standards) as opposed to hypothetical measures. They think MPMs should depict an aspect of the financial performance of the entity as a whole in the current reporting period. "Financial performance" is not defined in IFRS Accounting Standards; however, when a subtotal includes hypothetical income and/or expenses, then they have not actually occurred and, therefore, do not represent financial performance for the period. Therefore, these subtotals do not meet the definition of an MPM in paragraph 117 of IFRS 18. Proponents of this view also think that hypothetical measures can be misleading and do not faithfully represent the entity's financial performance.

Group members were asked to discuss their views on Example 4 and whether there are any other factors that should be considered.

The Group's Discussion

Group members expressed mixed views on whether subtotals of income and expenses based on hypothetical events or transactions can meet the definition of an MPM. Some Group members thought these measures can meet the definition of an MPM because the definition is broad, with little restriction. Other Group members thought subtotals of income and expenses based on hypothetical events or transactions cannot meet the definition of an MPM. They noted that hypothetical events have not actually occurred and, therefore, do not represent an entity's financial performance for the period.

Some Group members thought that some hypothetical adjusted subtotals can meet the definition of an MPM while others cannot. For example, some thought that removing losses recognized due to an unusual event could meet the definition of an MPM because those losses are clearly supported by their recognition in the financial statements. However, they thought that adding lost revenue due to the same event would be more challenging to support since the amount is speculative (i.e., not reflected in current period performance).

A representative of the Canadian Securities Administrators noted that although some hypothetical metrics may meet the definition of an MPM in IFRS 18, entities that are subject to securities regulatory requirements must ensure that any measure they present is not misleading. If a measure is misleading, then it would not be permitted to be used in public communication, and an assessment under the MPM definition would not be needed. One Group member noted that although securities legislation restricts the disclosure of misleading measures, private entities applying IFRS Accounting Standards are not subject to the same regulatory requirements but should consider other applicable legal requirements.

Example 5: Subtotal of income and expenses including items recognized in other comprehensive income (OCI)

Some companies communicate to investors a view of financial performance for the period by calculating adjusted operating profit as a subtotal of IFRS Accounting Standards profit or loss, adjusted for certain items included in OCI (e.g., fair value gains and losses on equity instruments under IFRS 9 *Financial Instruments*). This measure meets the criteria in paragraphs 117(a)-(c) of IFRS 18; however, it is unclear whether it can be deemed a subtotal of income and expenses.

View 1.5A – MPMs are not limited only to items of income and expenses recognized in profit or loss

Proponents of this view note that the definition of an MPM in paragraph 117 of IFRS 18 and associated guidance in paragraphs B116-B118 of IFRS 18 require that the measure be a subtotal of income and expenses. However, this definition does not require that the income and expenses be recognized in profit or loss. While paragraph B116 includes a list of measures that are not subtotals of income and expenses, it does not provide guidance on items recorded in OCI.

Paragraphs 4.68-4.69 of the *Conceptual Framework for Financial Reporting* define income and expenses as movements in assets and liabilities that result in increases or decreases in equity (other than contributions from/distributions to holders of equity claims). This can be interpreted to include income and expenses recorded in OCI as well as in profit or loss.

View 1.5B – MPMs only include items of income and expenses recognized in profit or loss

Proponents of this view note that IFRS 18 does not discuss items of income and expenses recognized in OCI in the context of MPMs. They note that the examples in the standard of subtotals of income and expenses (such as those in paragraph 118 of IFRS 18) only include items recognized in profit or loss.

Group members were asked to discuss their views on Example 5 and whether there are any other factors that should be considered.

The Group's Discussion

Group members agreed with View 1.5A because they thought items of income and expenses include items recognized in OCI. One Group member thought the IASB would have explicitly stated in the standard that MPMs exclude items recognized in OCI if they intended for this to be the case. Another Group member noted that their analysis of this issue might be different if the reported metric were an adjusted OCI rather than adjusted profit or loss metric; however, they noted that their overall conclusion might still be that the metric is an MPM.

Issue 2: Financial ratios include measures that meet the definition of MPMs

Analysis

While financial ratios do not meet the definition of an MPM, paragraph B117 of IFRS 18 states that "a subtotal that is the numerator or denominator in a financial ratio is a management-defined performance measure if the subtotal would meet the definition of a management-defined performance measure if it were not part of a ratio." Consequently, a numerator or denominator might meet the definition of an MPM even if it is not included in a public communication on its own, as long as the ratio that it is part of is included in a public communication. For example, consider a product manufacturer that publicly communicates a ratio of adjusted gross profit margin, which is calculated as follows:

$$\frac{\text{(sales revenue – cost of goods sold) – inventory carrying charges}^{2}}{\text{sales revenue}}$$

Consider another example of an oil and gas producer that publicly communicates an operating netback on a per-barrel of oil equivalent basis ($/BOE), which is calculated as follows:

$$\frac{\text{(sales – royalty expense – production and transport expenses)}}{\text{sales volumes}}$$

[2] Inventory carrying costs include insurance and taxes, warehouse rent and utilities, security systems and monitoring and write-downs due to shrinkage.

The numerator in both examples is a subtotal of income and expenses. Although the numerator itself is not publicly communicated, it is part of a ratio that is used in public communications.

The Group's Discussion

The Group agreed with the analysis. One Group member noted that paragraph B117 of IFRS 18 ensures that MPM disclosures are complete and that no MPMs are excluded from the disclosure simply because they are part of a ratio.

Some Group members thought that when assessing whether a financial ratio meets the definition of an MPM, entities might face similar challenges to those raised during their discussions of Examples 1-3 in Issue 1. They thought that since entities might interpret the definition of an MPM in different ways, they might reach diverse conclusions on whether a financial ratio meets this definition.

One Group member raised an example of an integrated oil company with significant upstream and downstream operations. If the entity discloses a financial ratio related to their upstream operations only, they questioned whether this metric represents management's view of an aspect of the financial performance of the entity as a whole. However, they noted the same metric reported by an entity that is upstream only would likely meet the definition of an MPM if it also meets the other criteria in paragraph 117 of IFRS 18.

Another Group member thought an entity might need to consider why it discloses a particular ratio when determining whether it meets the definition of an MPM. For example, they suggested that a ratio might not be an MPM if management only discloses it for comparability with other entities in their industry. In this case, they thought the ratio might not communicate management's view of an aspect of the entity's financial performance. By applying the rebuttable presumption in paragraph 119 of IFRS 18, they thought the entity might not be required to include the ratio in their MPM disclosure.

Since entities might reach diverse conclusions on the application of the requirements for identifying whether financial ratios are MPMs (for reasons similar to those raised above for Issue 1 Examples 1-3), the Group recommended the AcSB monitor the evolution of the application of the MPM requirements and consider raising this issue with IASB staff and potentially raising it with the IFRS Interpretations Committee.

Issue 3: How do MPMs interact with segment measure disclosures under IFRS 8 Operating Segments?

Analysis

Paragraphs 23 and 25 of IFRS 8 require an entity to report, "a measure of profit or loss for each reportable segment." This measure of profit or loss does not need to be measured in accordance with IFRS Accounting policies used to prepare the IFRS Accounting Standards financial statements. It is based on the management approach, (i.e., information reported internally to the chief operating decision maker (CODM)).

If a segmental profit or loss subtotal meets the definition of an MPM under IFRS 18, then additional disclosures would need to be provided in the notes to the financial statements (i.e., beyond what is required under IFRS 8). This information will need to be disclosed separately in the note dedicated to all MPMs or, if combined with segment disclosures, clearly distinguished (paragraph B132 of IFRS 18).

Paragraph 117 of IFRS 18 defines an MPM as a subtotal of income and expenses that:

a. an entity uses in public communications outside financial statements;

b. an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and

c. is not listed in paragraph 118, or specifically required to be presented or disclosed by IFRS Accounting Standards.

To explore the interaction of MPMs with segmental reporting of subtotals, the Group considered the following fact pattern:

- An entity has two operating segments, each contributing approximately 50 per cent to the entity's net profit.
- Each operating segment contains a single main business activity.
- The segments cannot be aggregated under IFRS 8 as they do not have similar economic characteristics. Consequently, they are reported separately.
- The segment measure of profit or loss reported under paragraph 23 of IFRS 8 for Segment 1 and Segment 2 is adjusted profit, and it is used in public communications; it is not reported on the income statement.

The Group discussed whether the segment measure, adjusted profit, meets the definition of an MPM. Given the criteria in paragraph 117(a) of IFRS 18 is met, the discussion focused on the criteria in paragraph 117(b) and/or 117(c).

View 3A – The segment measure is an MPM

Proponents of this view note that IFRS 8 only specifies that a segment measure of profit or loss should be a measure used and reviewed by the CODM. This does not mean that a segment measure is specifically required by IFRS Accounting Standards. Rather, whatever segment measure is reported under paragraph 23 of IFRS 8 depends only on the CODM's approach to receiving and using financial information for the segment to assess its performance. As IFRS 8 requires reporting through the eyes of an entity's management, the standard cannot, therefore, prescribe/specify the segment measure (e.g., subtotals of income and expenses) to be disclosed.

Proponents of this view also note that the guidance on identifying MPMs in paragraphs B114-B115 of IFRS 18 (and BC345-BC346 of the Basis for Conclusions for IFRS 18) discusses the possibility that reportable segment measures can be MPMs.

View 3B – The segment measure is not an MPM as it does not meet the criterion in paragraph 117(c)

Proponents of this view note that the criterion in paragraph 117(c) of IFRS 18 excludes any subtotal specifically required by IFRS Accounting Standards from the definition of an MPM. Although IFRS 8 does not prescribe the exact amount used as the segmental measure of profit or loss, it does specifically require that a measure of profit or loss for each reportable segment be disclosed. That measure's composition is not dictated by IFRS 8 (this depends on the information the CODM uses), but the requirement to disclose it (and to explain and to reconcile its composition to the totals in the financial statements) is dictated by IFRS 8. In other words, IFRS 8 only needs to specify that a measure be disclosed, not the measure to be disclosed.

View 3C – The segment measure is not an MPM as it does not meet the criterion in paragraph 117(b)

Proponents of this view note that paragraph 117(b) of IFRS 18 requires a subtotal to communicate management's view of an aspect of the financial performance of the entity as a whole. It is unlikely that, in cases when there are multiple reportable segments, any single reportable segment would represent an aspect of the financial performance of the entity as a whole.

IFRS 18 provides no quantitative "bright lines" or other indicators as to when a segmental measure represents an "aspect of the financial performance of the entity as a whole." However, proponents of this view think the standard sets a hurdle: While the guidance in paragraphs B114-B115 state that, "sometimes" a reportable segment subtotal "could provide information about an aspect of the financial performance of the entity as a whole," the example provided in paragraph B115 indicates that when such segment contains a single main business activity (as is the case in this fact pattern), it would be an MPM if a subtotal of income and expenses relating to that segment is presented in the statement of profit or loss (which is not the case in this fact pattern).

The Group's Discussion

Some Group members noted it was challenging to formulate a view on this issue because IFRS 18 does not clearly state what constitutes an aspect of the financial performance of an entity as a whole. Therefore, it is unclear whether a reportable segment meets this definition.

Depending on the facts and circumstances, some Group members noted they might support View 3A or View 3C. If an entity reports the same metric for all its operating segments, which is the case in this fact pattern, they would support View 3A. Otherwise, they might support View 3C if a reportable segment is not considered an aspect of the financial performance of the entity as a whole. However, one Group member noted they might still support View 3C in this fact pattern if the entity reports adjusted profit at the segment level only, but uses a different metric to assess the overall performance of the entity.

One Group member thought View 3B had merit, however, most Group members did not support this view as they thought a metric should not be excluded from an entity's MPM disclosures just because it is a segment metric required to be disclosed under paragraph 23 of IFRS 8.

Issue 4: How MPMs interact with adjusted earnings per share (EPS) measures disclosed under IAS 33 *Earnings per Share*

Analysis

Under the current requirements in IAS 33, entities are permitted to disclose additional amounts per share based on alternative measures of earnings (e.g., EBITDA per share). IFRS 18 amends IAS 33 to permit entities to disclose additional amounts per share (i.e., in addition to basic and diluted EPS amounts) using only the following as a numerator:

a total or subtotal listed in paragraphs 69, 86 and 118 of IFRS 18; or

an MPM as defined in paragraph 117 of IFRS 18 (paragraph 73B of IAS 33).

Consider an example when an entity discloses the MPM adjusted operating profit in its public communications. This entity also discloses an additional EPS measure in its public communications that is calculated using a numerator described as adjusted profit after tax. If adjusted profit after tax itself meets the definition of an MPM, the additional EPS measure can be disclosed in accordance with IAS 33. This is consistent with how financial ratios are analyzed (see Issue 2 above). The disclosures applicable to MPMs will also apply to the numerator used in the additional EPS measure. Amended IAS 33 now explicitly states that the additional amount per share cannot be presented in the primary financial statements and can only be disclosed in the notes (paragraph 73C(c) of IAS 33).

The Group's Discussion

The Group agreed with the analysis.

Overall, the Group's discussion highlighted several questions regarding the definition of an MPM in IFRS 18. They thought this might lead to diversity in the application of the requirements. Therefore, the Group recommended the AcSB discuss the issues highlighted in this discussion, monitor the evolving application of the MPM requirements in IFRS 18, and consider raising them with IASB staff and potentially with the IFRS Interpretations Committee. The Group also encouraged entities to begin their analysis of their reported performance measures as soon as possible to determine which ones might meet the definition of an MPM. It noted this process will likely be challenging and time-consuming for many entities.